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IMPLICATION OF DIFFERENCE IN VALUATION AND TREATMENT OF CASH FLOW STATEMENTS BY IFRS AND INDIAN GAAP

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ABSTRACT

Different countries have their own regional languages for communication. Indian Accounting Standards are formulated with a view to harmonize different accounting policies and practices in India. Institute of Chartered Accountants of India (ICAI) constituted Accounting Standard Board (ASB) in India. Similarly London based accounting body formed to convey the accounting language to all people in the world. International Accounting Standard Committee (IASC), which was formed and came in to existence on 29th June 1973, IASC recently named as International Accounting Standard Board (IASB) which announced in April, 2001 that accounting standards would be designated as 'International Financial Reporting Standards' (IFRS). Till April 1, 2011 India followed Indian GAAP but in order to introduce single set of universally accepted accounting standards, the IFRS has been recommended. After ICAI has proposed convergence of existing GAAP in India with IFRS and revised roadmap for adoption of IFRS converged Indian Accounting Standards (Ind-AS) with effect from 1st April 2016. There are some relevant areas of issues in convergence of Indian GAAP to IFRS came into existence. The present study discussed about some relevant issues of "cash flow statements" from Indian GAAP convergence to IFRS. It ensures comparability of financial statements of different enterprises with a view to provide meaningful information to various users of financial statements which will be helpful for economic decision.

KEYTERMS: *Cash flow, Functional currency, GAAP, IFRS, Ind-AS.*

INTRODUCTION

The key objective of financial accounting is to give adequate and suitable information for efficient decision-making. Today business are crossing their national boundaries and promoting accounting standards across the world. Therefore, harmonization of financial statement is required. When the procedure and practices of accounting are differing one country to another, it will create problem to all. Therefore, the Institute of Chartered Accountants of India has emphasized that the Indian financial statements require an integral language for easy communication. Globalization, Multinational companies, which are establishing business in various countries, capital market become worldwide trend and more companies that are Indian listed on overseas stock exchange. Statement of International Accounting Standards was issued by the board of the International Accounting Standard Committee between 1973 and 2001. The IASC, recently renamed as International Accounting Standard Board (IASB), London based, is an independent and privately funded accounting standard body is committed in developing a single set of high quality, understandable accounting standards to achieve convergence of accounting standard around the world. So far there were 41 IAS, which had been issued before IASB replaced IASC in 2001.The year 2001 onwards IASB issues IFRS which recommends for transition from Indian GAAP to IFRS, applicable with effect from 01.04.2011 in which Companies with over Rs.1000 Crore networth and Companies listed in Sensex-30/NIFTY-50/overseas stock exchanges. Companies with a networth more than Rs.500 Crore but less than Rs.1000 Crore, transition applicable with effect from 01.04.2013.All listed Companies with networth less than or equal to Rs.500 Crore, transition effectively from 01.04.2014 onwards, however SMEs and unlisted companies with a networth less than or equal to Rs.500 Crore exempted transition to IFRS. In short year 2001 onwards IASB issues IFRS which recommends for transition from Indian GAAP to IFRS, applicable with effect from 01.04.2011 to 01.04.2014. But it was not practicable during these periods. So ICAI has proposed convergence of existing GAAP in India with IFRS and revised roadmap for adoption of IFRS converged Indian accounting standards (Ind-AS) with effect from 1st April 2016. As of now, more than 130 plus countries have implemented IFRS, the aim of moving from Indian GAAP to IFRS not merely changing from one set of accounting policies to another but Convergence of Indian GAAP to IFRS with unique challenges to India.

The ICAI has initiated suitable accounting framework and suggested the Government, Tax authorities and financial regulatory bodies to follow in order to maintain uniformity in accounting standards across the world. Hence single set of universally accepted accounting standards has promoted by many countries, including India to pursue convergence of national accounting standards with IFRS. Existing literature supports the view of adoption of IFRS improve the quality of financial information, benefit of reporting entities and eliminate multiple reporting.

STATEMENT OF THE PROBLEM

The difference in accounting standards will create problems to all if different procedures and practices are followed by accounting men. The researchers' check whether IFRS/IAS/Ind-AS ensures comparability of financial statements of different enterprises with a view to provides meaningful information to various users of financial statements than Indian GAAP.

OBJECTIVE OF THE STUDY

The main objective of the study is to understand the difference in valuation or treatment of "cash flow statements" by Indian GAAP and IFRS and how it effects in valuation.

METHODOLOGY

This paper tries to explain the updated information of "cash flow statements"of IAS, IFRS, Ind-AS in India. For this purpose only qualitative data have been used and analyzed. Thus information extracted from various journals, published articles, books and discussion with ICAI members, ICMA members.

REVIEW OF LITERATURE

Ramesh kumar (2010) reveals the top five technical accounting challenges faced by Indian banks due to convergence of Indian GAAP to IFRS and how it overcome this challenges which include loan or investment challenges can be overcome through strengthen credit risk management function, strengthen data capture system. Use of fair value system can be overcome through trained personnel for significant area of expertise and judgment. Banks focus on to meet challenges on Hedge accounting or Derivative; certain strategic decisions need to be made. Now Indian Banks are ready to IFRS convergence.

Aditya singhal (2010) in his study reveals that how IFRS introduced in India effectively and efficiently. It also reveals the applicability and area of coverage of IFRS in Indian context. Phase 1 applicable in India with effect from01/04/2011, Phase 2 applicable with effect from 01/04/2013 and Phase 3 applicable with effect from 01/04/2014.

Christopher write and Steven hobbs (2010) reveals that impact and implication of IFRS conversion or convergence, they concluded that conversion or convergence of local GAAP to IFRS require more disclosure than most countries local GAAP requirements. It reduces current level of complexity, improve transparency of financial reporting.

Kanchan Mukherjee (2010) reveals that how to solve the key challenges that were faced during first time adoption of IFRS.The experience of major European Bank, Barclays plc ,British petroleum, Glaxo Smith Kline and Mark and Spencers were cited to illustrate the complexity and solutions adopted. In India we are threshold of commencing the convergence with IFRS and we hope to draw lessons from Europe.

Subramanyan.M (2011) in his study reveals that some major areas impacted due to convergence with IFRS will be business combinations, group accounts, fixed assets and investment property, presentation of financial statements. Good number of entities, which have been already doing global business, readied themselves by preparing their organizations to meet various challenges while convergence from Indian GAAP to IFRS.

Titto vargheese (2014) in his study reveals that the problem faced by the stakeholders in the process of adoption of IFRS in India and brings about the ways in which this problem can be solved like changes in existing Companies Act, Tax Laws and Foreign Exchange Management Act etc.

ANALYSIS AND DISCUSSION

These segments analyze different aspects pertaining to GAAP and IFRS/IAS and how the treatment and valuation of cash flow statements.

Difference between Indian GAAP and IFRS for cash flow statements:-

There are some significant differences between Indian GAAP and IFRS. Some major areas related to "cash flow statements" are given below.

Basis of difference	IAS / IFRS	Indian GAAP
1)Cash and Cash equivalents	As per Ind-AS 7 or IAS specifically includes bank overdrafts which are repayable on demand as a part of cash and cash equivalents	Under the Indian GAAP is silent to consider bank overdraft as cash equivalents.
2)Standard number	IAS '7' or Ind AS 7state the concept of "statement of cash flows"	However under Indian GAAP, AS '3' state the concept "cash flow statements".
3)Requirements	Ind-AS'7' or IAS mention the use of equity or cost method while accounting for an investment in an associate or a subsidiary and also specifically deals with the reporting of interest in a jointly controlled equity using proportionate consolidation and using equity method.	As per accounting standard '3'does not include such necessities.
4) Currency	Ind-AS or IAS uses the term 'functional currency' instead of reporting currency ,also deals with translation of cash flows of a foreign subsidiary	However as per existing Accounting Standard, the term reporting currency is used, Indian GAAP does not dealt with translation of cash flows of a foreign subsidiary

CONCLUSION

Many countries are replacing their national standards with IFRS. The vision of ICAI adoption or Convergence of Indian GAAP to IFRS in April 1, 2011 onwards, in some cases some conceptual differences with the treatment prescribed in IFRS and Indian accounting standards. Convergence of Indian GAAP to IFRS shouldn't cause major harm to industry. There are many challenges convergence of Indian GAAP to IFRS but it create exiting opportunities. Certain big companies, multinational companies like Infosys technologies, WIPRO now using IFRS instead of Indian GAAP. It is helpful for global capital market, global comparability, cross boarder listing, elimination of multiple reporting standards. It is applicable in India step by step. Ind-AS 7 "statementof cash flows" has wider area of coverage than existing Indian GAAP '3' cash flow statements. IFRS facilitates cross or border capital market transaction, cross mergers and acquisition, cross borrowing and lending. So it is helpful for international business for smooth mobility of foreign capital and capital formation at a lower cost which leads to globalization.

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